UNITED STATES DEPARTMENT OF AGRICULTURE
AGRICULTURAL ADJUSTMENT ADMINISTRATION

Facing the Facts in the Agricultural Situation

Highlights.—Farmers of the United States have shown in the last two years that they do not wish to carry on their farming operations haphazard, without regard to supply and demand conditions in this country and the rest of the world.

The adjustment program is not planned to help farmers simply because they are having a hard time. When their hard time is the result of farm prices so disastrously low as to be completely out of line with other prices, neither the farmer nor the rest of society can possibly prosper. When the farmer loses his buying power, or ceases to be a paying customer, the rest of the country suffers. Under these conditions unless measures are taken to bring farm prices in line with other prices, business in general is stagnant, factory unemployment increases, and general depression sets in.

Back in 1920–21, farm prices plunged downward, and returns per acre for basic crops were drastically reduced. Land values declined along with per acre returns, but there was no accompanying drop in the mortgage burden. Farmers could neither wipe out their debts by selling out nor earn enough off their lands to support their farms.

By 1932, the net income from farm products had been reduced to a point where farmers were earning neither an adequate reward for their own labor nor a return on their investment. Not only was the farmer unable to buy, but he was likewise unable to pay his large debts. This endangered the life savings of millions of his fellow Americans, for his two chief creditors were insurance companies and banks.

If American farmers insist on producing the same quantities of wheat, corn, hogs, and cotton as in the 1920's, it seems certain that they will have to accept very low and unsatisfactory prices. Until foreign trade can be revived, or some way is found to boost domestic demand, farmers apparently will need to continue adjusting production to fit demand, if they want to avoid a return to such conditions.

I. The Farm Crisis Of 1932

LESS than three years ago this country was in the midst of a crisis. The situation which then reached its climax had been developing for a number of years. Between 1923 and 1932 half the banks of the nation had failed. Business houses had gone bankrupt in a wholesale way following 1930. One farmer out of 13 had lost his farm from 1929 to 1932.

Prepared in the Division of Information.

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The buying power of the farmer had been low for a long time. In only 5 years of the period from 1914 to 1932 had the farmer's dollar been worth in terms of goods farmers buy what it was before the World War. Policies followed by the United States and foreign nations had restricted severely the American farmer's foreign markets.

Back in 1920–21, farm prices had plunged downward, and returns per acre for basic crops were drastically reduced. Land values declined along with per acre returns, but at the same time there was no drop in the mortgage burden. Farmers could neither wipe out their debts by selling out nor earn enough off their lands to support their farms. The total farm mortgage debt, which in 1910 had been only 3⅓ billion dollars by 1930 had become 9¼ billion dollars and in 1933 was 8½ billion dollars.

By the end of 1932, purchases by farmers had largely ceased. The total cash income of farmers dropped from a little less than 10½ billion dollars in 1929 to a little less than 4⅓ billion in 1932.

Loss of Farm Buying Power

As farmers' buying power dried up, city breadlines grew longer. At the depth of the depression, it is estimated that 4 million men walked the streets looking for jobs that had been destroyed because of shrunken farm buying power.

The extent to which farm buying power had declined is indicated by the following table showing the number of hogs, pounds of cotton, and bushels of wheat needed to buy a double wagon in the years from 1921 to 1932:

Number of Bales of Cotton (500 Pounds), Bushels of Wheat, and 200-Pound Hogs Needed to Buy a Farm Wagon in the United States, 1921–32

Year	Average wholesale price of double wagon	Number bales of cotton needed to buy double wagon	Number bushels of wheat needed to buy double wagon	Number 200-pound hogs needed to buy double wagon
1921	$118. 27	2. 07	106	7. 6
1922	100. 80	. 97	104	6. 0
1923	111. 05	. 79	117	7. 8
1924	111. 15	. 93	97	7. 5
1925	96. 90	. 93	66	4. 5
1926	103. 07	1. 54	80	4. 4
1927	103. 07	1. 15	86	5. 4
1928	103. 07	1. 14	97	6. 1
1929	94. 24	1. 08	90	5. 0
1930	93. 83	1. 81	125	5. 3
1931	86. 60	2. 83	203	7. 4
1932	79. 19	2. 61	210	11. 5

Crop Reporting Board, Bureau of Agricultural Economics.

Decrease in Price and Increase in Production

When farm prices get lower than other prices and the buying power of farm products goes down, farmers struggle to keep on buying the same amount of goods to which they are accustomed. Therefore, they try to produce more in order to keep up their purchases.

In 1932, when it took, roughly, 2 bales of cotton, 2 bushels of wheat, or 2 hogs to buy what was formerly bought with 1 bale of cotton, 1 bushel of wheat, or 1 hog, farmers naturally tried to raise more cotton, more wheat, more hogs. With shrunken foreign markets this added to an already growing surplus, depressed prices, and still further lowered the buying power of cotton, wheat, and hogs. The more the farmer struggled to keep up standards of living in the only way he knew of, by himself, the worse off he became under such conditions as those of 1932. That is why America had huge unsold surpluses that would not move into trade channels even at 5 cents per pound for cotton, 30 cents per bushel for wheat, and $2.50 per hundred for hogs.

Farmers' Trouble Affects Other Groups

By 1932, the net income from farm products had been reduced to a point where farmers were earning neither an adequate reward for their own labor nor a return on their investment. Not only was the farmer unable to buy, but he was likewise unable to pay his large debts. This endangered the life savings of millions of his fellow Americans, for his two chief creditors were insurance companies and banks.

At the depth of the depression, bank failures reached record proportions, while insurance companies, mortgage companies, and other financial institutions were facing apparently insoluble difficulties. The group of institutions holding farm mortgages, totaling about 8½ billion dollars, was threatened with disaster.

The total value of farm real estate had fallen from about 66 billion dollars in 1920 to about 30 billion dollars in March 1933.

Unpaid Taxes Close Rural Schools

Tax delinquency had depleted county funds until shortened school terms and nonpayment of salaries to teachers were becoming more and more general. Because of unpaid 1932 taxes, 2,000 schools in rural areas failed to open in the fall of 1933.

II. Were There Farm Surpluses Before the War?

In Washington's day it took 9 out of 10 people to produce food and clothing for the Nation; 100 years ago it required 3 out of every 4; today 1 out of 4 does the job.

Farmers who opened up the Mississippi Valley in the last century were able to sell more and more wheat, corn and hogs, and cotton because of new means of transportation then coming into use. Railroads and steamships enabled them to become specialists in foodstuff and fiber production for a very large area. They produced not only for their own neighborhood but the Nation, and not only for the Nation but for the world.

American Farmer Produced Cheaply

As producers for the world market—chiefly the European market—they had special advantages. The flat, fertile prairie States were ideal for the use of large-scale agricultural machinery. Most fields in Europe were too small and too hilly for the use of this kind of machinery. Furthermore, most of the American farm land was virgin soil. American farmers had a decided advantage in cheaper costs of production.

American farm products could undersell the European market, and they were important as factors in the new exchange of goods across the Atlantic.

A system of exchange in which America was the specialist in raw materials and Europe the specialist in finished goods had existed since the founding of the American colonies. The rise of modern industry in England and modern agriculture in the American Middle West vastly increased the scale of this exchange.

United States Owed Europe

In order to develop its resources quickly, the United States borrowed heavily from Europe. The money brought into this country in the form of such things as rails for railroads went back to the Old World in the form of foodstuffs, carried east to the sea on the new railroads.

From the American farmer's point of view, his market seemed to be, and for a long time was, limited only by the limits of his own productiveness. Seldom did anyone hear of farm surpluses because farmers exported all of their products which could not be used at home. Millions of tons of soil fertility left American farms in the foods that were sold abroad.

Before the war America exported 21 percent of its wheat, 66 percent of its cotton, 39 percent of its tobacco, $1\frac{6}{10}$ percent of its corn, and 12 percent of its hog products.

Growth of Population

The growth of population in the United States is probably unequaled in the history of the world. From the Civil War to the World War, it increased at the average rate of more than 1¼ million persons a year. This meant more than a million new mouths to feed and bodies to clothe every year. The farmer had a fast-increasing home market. Farming naturally expanded to keep pace. Prices and farm conditions were far from good throughout all of this period, but chronic surpluses had little chance to develop.

Prior to 1930, from 200,000 to 500,000 persons were added to the population each year by immigration, mostly from Europe. These newcomers settled chiefly in the cities. The rapid increase of the cities and towns was swelled by movement from the farms. At the time of the Civil War about one-fourth of the people lived in cities; by the time of the World War, over one-half of the population was in the cities.

Farm production was always on the upswing, and surpluses seldom appeared.

III. The Change That Came With the War

After America entered the World War American farmers, encouraged by high prices for their products, plowed up about 40 million acres of pasture on which to grow food. "Food will win the war" was a slogan of the time. A huge increase of agricultural production took place, but at much higher costs to farmers.

In order to buy more land on which to grow more food, and to buy the machinery with which to operate it, thousands of farms were heavily mortgaged at war-time values. The average mortgage debt per acre increased to nearly two and one half times (235 percent) the 1910 figures, by 1920.

Prices for farm land rose right along with prices for farm products. Cost of production went up with prices of farm products and land prices. When prices of farm products collapsed in 1920–21, costs of production stayed up, and the heavy mortgage debt remained.

In addition, America still had in cultivation that 40 million acres which had been plowed up to win the war.

New Competition From Abroad

The war market had brought into full production vast areas of land in Canada, Australia, and Argentina which were as well adapted to the use of large-scale machinery as was the Mississippi Valley

area. This land had been acquired as cheaply by its owners as American grain-belt land had been obtained by its early owners. The acreage in those countries increased about 41 million acres after the war.

New producers in these three countries were able to undersell Americans for somewhat the same reason that Americans had once been able to undersell Europeans. For almost the first time, America faced large-scale competition of cheap foreign farm products. Unfortunately this came at the very time that American farms had become burdened with high mortgages.

Europe Goes to Living at Home, and Why

Following their experience with war blockades European nations decided that it was important to be able to feed themselves from within their own borders. Rebuilding in the war-torn regions and Europe as a whole was generally completed by 1925, and crop production restored. Following the example set by the United States, many of these countries began to raise their tariff duties about 1925, and to place other barriers in the way of agricultural imports, to protect the incomes of their farm people. Europe's acreage in 1932 was one-tenth more than the pre-war acreage. Not only did America face the problem of added competition from Canada, Australia, and Argentina, but with Europe rapidly becoming able to feed itself, foreign markets of American farmers were seriously impaired.

Russia a Factor to be Met

The return of Russia as an important exporter in 1930 added more competition in European markets. In large part, however, Russia's increased wheat and cotton production has been consumed within Russia, and the effect has not been greatly to increase supplies on the world market. Nevertheless, in the past 3 years wheat exports from Russia have averaged nearly 70 million bushels yearly as compared with 15 million bushels for the 9 years before. The following table shows the increase in acreage for all crops.

Crop Acreage in Russia

Year	Acres	Year	Acres
1913	282, 000, 000	1930	303, 000, 000
1925	263, 000, 000	1932	337, 000, 000

Shift From Horses to Tractors and Automobiles

Since the war millions of horses and mules have been replaced by autos, trucks, and tractors. These animals had eaten the crops

produced on 35 million acres, which meant that the farmer also had lost the market for feed crops produced from this amount of land. It had the same effect as adding 35 million acres to the national farming area.

Effect of Decreased Immigration and Declining Birth Rate

With a cultivated area increased 40 million acres by the war, and with 35 million acres of land no longer needed to produce feed for work stock, the situation for the farmer was made still worse by a decided slowing up of population growth. In 1922, the restricted immigration law was passed, and the birth rate which had been falling slowly for a century declined much more sharply after the war. Instead of having 1¼ million new customers every year, as was true from the Civil War to the World War, the farmer since 1922 has had only ½ million persons to increase his markets each year.

Change from Debtor to Creditor Nation

The World War quickened what probably in the long run would have happened anyway. The United States entered the war a youthful debtor nation only to awaken 4 years later a creditor nation. That meant that to continue its exports on the old scale it had to import much more than ever before.

Before the war, the United States owed Europe and was paying the debt by large exports, mostly farm products. After the war, Europe owed the United States and could pay in the main only in the same way the United States had formerly paid—by exporting goods, chiefly manufactures.

America Had to Choose in 1920

At the close of the war, America had to choose between two courses if it wished to maintain its customary farm exports. It could let in the goods necessary to pay the debts which it was America's intention to collect. That meant dropping the tariff. Or, it could loan money to increase foreign debts still further, and leave the problem of collections to the future. America made the loans.

Beginning in 1921, Americans invested as individuals in foreign securities, and these loans enabled Europe to keep on buying American farm products. These loans stopped in 1928–29. The farm export market then began to collapse.

Effect of Tariffs, 1929–30

Instead of lowering its tariffs after the war, to adjust itself properly to its creditor-nation position, the United States continued its

exports by unsound loans, and actually increased its tariffs. From tariffs averaging 21, as expressed in an index number, it increased them to 38, in 1922, and to 53, in 1930. The United States made it impossible for Europe either to pay war debts or to buy American surplus farm products. Furthermore, the American high-tariff policy encouraged Europe to build up its own tariff walls. As much as possible, Europe shut the United States off from its food markets.

Ruin Confronted the Farmer

The American farmer was not growing prosperous in the 1920's. His depression really started in 1921 and its worst effects were only postponed until after 1929 by foreign loans. From 1929 to 1932 the decline in his fortunes was swift. With his farm plant expanded by 40 million acres, his domestic market needing 35 million acres less, and his foreign markets slipping away, huge stocks began to pile up and farm buying power dropped still further. The first stages of ruin had arrived.

IV. A Fair Deal For Farmers

During the 10-year period before 1932 the farmer found himself gradually being stripped of his capital. He was forced to sell in an open world market and to buy in a protected domestic market. To correct this injustice and to save the Nation's business structure the Agricultural Adjustment Act was passed May 12, 1933.

Nearly everyone in America will agree that the farmer should have a fair deal. People will not agree so quickly on what a " fair deal " means. To make any progress in improving farm conditions there must be some agreement about what is really " fair ", so that farmers and the public may know where the program is headed, and when the goal has been reached.

" Parity ", Basis for " Fair Deal "

The yardstick of what is a fair deal for farmers as given in the Agricultural Adjustment Act is called *parity.* The act simply states that the buying power of farm products should be equal to the buying power of those products during the 1909–14 period. This period was selected because there seemed to be a good balance at that time between prices of the things farmers sold and prices of the things they bought. Give farmers prices that will make their products trade for the same amount of goods as in the 1909–14 period and they will have a " fair deal ", according to the parity yardstick.

Parity does not mean any given price. Parity for cotton is now about 15 cents per pound, but if all prices go up it might mean

next year a price of 20 cents per pound. If industrial prices should go down, 10 cents per pound might be parity for cotton.

A Fair Deal for Farmers Helps the Nation to Recover

The adjustment program is not planned to help farmers simply because they are having a hard time. When their hard time is the result of farm prices so disastrously low that they are completely out of line with other prices, neither the farmer nor the rest of society can possibly prosper. When the farmer loses his buying power, or ceases to be a paying customer, the rest of the country suffers. Under these circumstances, unless measures are taken to bring farm prices in line with other prices, business is stagnant, factory unemployment increases, and depression sets in.

The level at which this price balance is brought is known as "parity." It offers the farmer a fair deal, affords the Nation an opportunity to recover, and guarantees the consumer that farm prices will not be too high. "Parity" is a balance to be reached but not overreached.

Farmers of the United States have shown in the last two years that they do not wish to carry on their farming operations haphazard, without regard to supply and demand conditions in this country and the rest of the world.

V. The Farmer's Choice For Continued Adjustment

The American farmer used to devote 1 acre out of every 4 wheat acres to supplying a foreign market, now gone. One out of every 6 corn acres used to produce for an export trade which has dwindled down until 1 out of 15 corn acres will supply all of the pork products the United States can sell abroad. In cotton the United States still has substantially more than a normal-sized carryover, with huge supplies as yet unsold in home and foreign markets. Three out of every four acres formerly used to raise cotton will supply all the cotton the United States can profitably sell at home or abroad.

Why Adjustment of Supply to Demand Is Being Tried

These are hard facts. If American farmers insist on producing the same quantities of wheat, corn, hogs, and cotton as in the 1920's, it seems certain that they will have to accept very low and unsatisfactory prices. Until foreign trade can be revived, or some way is found to boost domestic demand, farmers apparently will need to adjust production to fit demand.

Is there any other way *for the immediate present* of avoiding disaster similar to that of 1932?

A number of ways have been suggested. Among these ways are: (1) Increase efficiency, cut cost of production; (2) cooperative marketing; (3) reopen foreign markets; (4) live at home, both on the farm and as a nation; (5) fix prices to guarantee cost of production; (6) improve city buying power; (7) induce industry to produce to capacity and let industrial prices fall in accordance with the law of supply and demand, thereby bringing about "parity" between industrial prices and farm prices; (8) return to the "let nature take its course" adjustment of 1932 by doing nothing.

Cutting Cost of Production

For 150 years farmers have been working to increase their yields. It is well known that within certain limits larger yields mean lower costs.

Better farm methods, encouraged by county agents, vocational agriculture teachers, colleges, farm papers and others, have enabled some farmers to make larger profits.

Good farming has always paid better than poor farming, and this will always be true.

Cost of producing farm products can be reduced greatly on the average farm, as has been proved over and over in the past. There is a limit, however, with other prices remaining constant, to how far this cutting of cost can go. Farmers are unanimous in declaring that cost, with the best of present machinery and methods, cannot be reduced down to the point where there is any profit left in 5-cent cotton, 30-cent wheat, and 3-cent hogs—farm price levels of 1932.

Also it has been the experience that even though costs of production have been cut, market prices have declined as fast if not faster than such production costs are lowered. This usually is for the reason that cost cuts result in increased production instead of the same production on an economy basis. In this manner the crumbling price structure chases the reduction in production costs in a vicious circle to the loss of the producer. This method thus may place a penalty, in effect, on many farm production economies.

Government Support for Cooperative Marketing

Both farmers and consumers have long contended that the middleman charges too much for handling, transporting, processing, and merchandising farm products. In spite of the belief that farmers will not stick together in cooperative efforts, a great deal of success has been achieved in efforts to organize cooperative selling and buying associations.

No way has yet been worked out, without Government aid, for protecting the majority of loyal cooperators from the unbridled acts of the noncooperating minority.

Reopening Foreign Markets

If the United States is to regain its former foreign markets for farm goods, Americans must buy from abroad. If this country wants to export more farm stuffs, it must import more manufactured or other goods from foreigners. Exporting and importing represents a trading of goods back and forth.

If the United States is to get back its lost foreign trade, it will have to import from abroad several hundred million dollars worth more goods each year than it now is exporting. One way of doing this would be through lowering tariffs in some way to permit foreign goods to flow into this country. This would call for economic readjustments. An effort is being made to revive American foreign trade through reciprocal trade agreements with other nations.

However, several factors suggest that foreign trade may not soon return to the level of the 1920's:

1. Making of trade agreements with other countries is bound from their very nature to be a slow process.

2. A large part of American sales during the 1920's was the result of unwise American lending rather than sound purchasing power among America's customers. In order to restore this volume of sales on a sound basis, purchasing power abroad would have to be built up by letting in an increased volume of imports in this country.

3. Increased production in many parts of the world has both increased competition for world markets and cut the available markets for United States exports by supplying their needs from local sources. This is true of farm as well as industrial products.

Living at Home as a Nation (Nationalism)

Those who favor the "living-at-home" policy (interpreted by America in recent years as importing as little as possible and exporting as much as possible) point out that America has a generous share of the world's resources and only 6 percent of the world's population. However, America has developed an industrial and agricultural system based on the exporting of surpluses of products. Perhaps these surpluses can be absorbed at home, but the change will not be easy to make.

Farmers might be hit harder than other classes of people by this course. There is a very definite limit to how much people can eat—the human stomach is not elastic. But there is hardly any limit to how much people will buy of manufactured articles if they have the money.

Living at Home on the Farm

In living at home on the farm, the farmers might produce practically all of the food for their families, going without what could

not be produced on the farm. This would mean lowering their present standards of living.

There is one other factor that makes this plan impossible for most farmers. They owe so much money that they must sell some of their products in order to meet debts.

Price Fixing for Cost of Production

The suggestion frequently is made that cost of production to farmers might be guaranteed by Government price fixing. Average cost of production is not easy to determine but the "parity yardstick" contained in the Agricultural Adjustment Act is considered to be an approximation of it.

The method of assuring "parity" or "cost of production" prices by Government price fixing alone is open to serious question. If this method were adopted one of five things would be almost certain to happen, sooner or later:

1. The Government would take over large quantities of farm products and accumulate huge supplies as the Farm Board did; or
2. The Government would sell its supplies at a loss, making up the difference out of the Federal Treasury; or
3. The Government would fix prices of farm products at cost of production, but would not take over any quantity of these products, in which event farmers or middlemen would find farm products accumulating on their hands; or
4. The Government-fixed prices would in practice generally be disregarded; or
5. Much more drastic control of production and marketing would be undertaken by the Government to support the prices it had named.

Improve City Buying Power

There is no question but that city prosperity helps farmers, that greater industrial activity will absorb some farm surpluses. Yet, it is questionable how much more people would eat no matter how much money they had. At the height of American prosperity from 1925 to 1929, it required 287 million acres of land to supply the American table with food. If Americans should adopt the best and most expensive diet, it would not require any more land to supply it than was needed during the 1925–29 period.

Full employment at good wages would have little effect on food consumption, but would increase use of nonfood products such as cotton, tobacco, and flax.

Induce Industry to Produce to Capacity

It has long been the custom of industry to maintain high price levels by limiting production to what the market will take at what

are regarded as "fair" prices. Industry plowed up two-thirds of its production in 1932. Industry plowed 10 million men out into the streets. If industry were to produce to 1929 capacity, it would put many of the unemployed back to work and restore their lost buying power. By such a procedure, parity might be brought about, but at a lower level.

This might take care of all the farm problems except the old debts—which would have to be scaled down or some other provision made for payment.

Return to "Let Nature Take Its Course" Policy of 1932

If nothing is done, farm prices and industrial prices will be brought into adjustment with each other in the long run—the kind of adjustment America had in 1932. The American public can have that kind of adjustment if it wants to pay the price. This course would ruin a large percentage of the farmers and prolong the depression, but in the long run it would be effective.

Other ways will suggest themselves for improving the lot of the farmer, of giving him a "fair deal," of making it possible for him to live in some degree of economic security. Farmers will want to look at all possible ways, and look on all sides of each one. They may find that every way out entails its price, that every possible solution calls for some kind of adjustment.

The American farmer has an opportunity to choose the kind of adjustment he wants to continue. If he does not make the choice himself on the basis of his own thinking, the choice will be made for him by others, and it may not be to his liking.

SUGGESTED REFERENCES

The following publications may be secured from the sources below as long as supplies are available.

"Achieving a Balanced Agriculture", G–20; Correspondence, Records, and Printing Section, Division of Information, Agricultural Adjustment Administration, Washington, D. C. (Free.)

"Agriculture's Interest in America's World Trade", G–26; Correspondence, Records, and Printing Section, Division of Information, Agricultural Adjustment Administration, Washington, D. C. (Free.)

"Economic Bases for the Agricultural Adjustment Act", Office of Information, United States Department of Agriculture, Washington, D. C. (Free.)

"Economic Trends Affecting Agriculture", Superintendent of Documents, United States Government Printing Office, Washington, D. C. [1] 5 cents.

[1] For Sale by the Superintendent of Document, Washington, D. C. Postage stamps cannot be accepted in payment.

U. S. GOVERNMENT PRINTING OFFICE: 1935